

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

NOTICE OF MARKET DOMINANT PRICE  
ADJUSTMENT FOR ALTERNATE POSTAGE  
PAYMENT METHOD

Docket No. R2014-1

**UNITED STATES POSTAL SERVICE**  
**NOTICE OF MARKET DOMINANT CLASSIFICATION AND PRICE CHANGES**  
**FOR THE ALTERNATE POSTAGE PAYMENT METHOD**  
(November 05, 2013)

Pursuant to section 3622 of title 39 and 39 C.F.R. part 3010, the Postal Service hereby provides notice that the Governors have authorized the Postal Service to adjust the classification language and prices for its market dominant products. The adjustments described herein, which affect First-Class Mail® prices, are planned to take effect at 12:01 AM on January 1, 2014. In this Notice, the Postal Service provides the information required by Rule 3010.14, including a description of the price changes.

The Postal Service certifies that it will inform customers of these classification and price adjustments, as required by Rule 3010.14(a)(3). In addition to this Notice, the Postal Service will be publishing notice of these changes shortly in the *DMM Advisory* as well as issuing a Press Release. Thus, widespread notice is being given more than 45 days prior to the planned implementation date. Furthermore, the Postal Service plans to provide public notice of these changes in future issues of the *PCC Insider*, *MailProDigital*, *Postal Bulletin*, and *Federal Register*.

The Postal Service, pursuant to Rule 3010.14(a)(4), identifies Mr. Tom Foti as the official who will be available to provide responses to queries from the Commission.

Mr. Foti's contact information is as follows:

Mr. Tom Foti  
Manager, Direct Mail & Periodicals  
475 L'Enfant Plaza S.W.  
Room 5446  
Washington, D.C. 20260-5621

The remainder of this Notice is structured as follows. In Part I, the Postal Service describes the changes to the classifications and pricing for First-Class Mail. In Part II, the Postal Service discusses its compliance with the price cap. In Part III, the Postal Service discusses how its prices are consistent with the objectives and factors of section 3622 and the preferential pricing requirements of section 3626. Proposed MCS language and prices are being submitted with this pleading as Attachment A. The most recent data from the Alternate Postage Market-Test (Docket No. MT2011-1) is being submitted with this pleading as Attachment B.<sup>1</sup>

## **I. Description of Adjustments**

The Postal Service proposes to add Alternate Postage Payment as a price category under both First-Class Mail Single-Piece letters and cards. The Alternate Postage Payment price categories are proposed as an easy, convenient way for producers of Single-Piece First-Class Mail<sup>®</sup> letters and cards to prepay the mailer's postage without the need for affixing a stamp.. Indeed, Alternate Postage letters or postcards are nearly ready to be mailed at the time they are purchased or distributed.

---

<sup>1</sup> The volume and revenue information in Attachment B is redacted, because it contains mailer-specific information about the Alternate Postage Market Test's sole participant, Hallmark Cards, Inc. A nonredacted version of Attachment B is being filed with the Commission today as USPS-LR-R2014-1/NP1.

Customers need only address the letter or card and drop it in a collection box. This simplicity will make some customers more likely to mail greeting cards or other correspondence.<sup>2</sup> Alternate Postage will be a premium offering, and will therefore be priced above prevailing First-Class Mail Single-Piece postage rates.

To utilize the new Alternate Postage rate categories, participating businesses produce and distribute pre-approved envelopes and postcards according to specific design requirements established by the Postal Service.<sup>3</sup> Business may also enhance the value of their pre-approved envelopes by applying a customized Picture Permit at no additional charge. After purchasing pre-approved Alternate Postage items, individual consumers can mail those items without the extra steps associated with using regular postage (e.g., determining the price, going to a Post Office to purchase stamps, and affixing postage).

Rather, the participating companies will pay postage in two stages: 1) they will pay an agreed upon prefunded portion of the total postage at the time they produce or distribute the Alternate Postage mailpieces; and 2) they will pay the remaining portion when the IMb on the Alternate Postage mailpiece is scanned during normal mail processing. Alternate Postage relies on Intelligent Mail barcode® (IMb) technology to identify and count each pre-approved mailpiece as it moves through the postal system. Once a mailpiece is scanned and counted, the participating company's Centralized Automated Processing System (CAPS) account is debited the appropriate amount.

---

<sup>2</sup> The increasing availability of new communication technologies makes convenience and ease of use a more significant factor in whether consumers will use the mail. Indeed, consumers often say that the extra step of providing postage is one of the primary obstacles to sending greeting cards and other correspondence.

<sup>3</sup> Before companies can use Alternate Postage, they will need to sign a marketing agreement with the Postal Service. This time-limited agreement spells out mailpiece requirements and governs payment terms, prefunding stipulations, and fraud protection mechanisms.

The mailpieces may have handwritten addresses, or be pre-addressed to a single destination within the United States.<sup>4</sup> Alternate Postage mailpieces may be deposited into the mailstream in the same ways as other Single-Piece First-Class Mail. The mailpieces follow First-Class Mail handling procedures, and will be processed and delivered according to Single-Piece First-Class Mail standards.

Since January 1, 2011, pursuant to Commission Order No. 584 (Docket No. MT2011-1), the Postal Service has been conducting the Alternate Postage Payment Method for Greeting Cards Market Test (Alternate Postage Market Test). This market test is currently scheduled to expire on January 1, 2014.<sup>5</sup> The Alternate Postage Market Test has been successful, demonstrating that demand exists for this service and verifying that the Postal Service is able to capture the scan data needed to collect postage from customers.<sup>6</sup> While the market test has been limited to greeting cards, the Postal Service now wishes to expand the Alternate Postage payment method to all Single-Piece First-Class Mail letters and cards. Indeed, during the course of the Alternate Postage Market Test the Postal Service was approached by a variety of other First-Class Mail letter and card mailers who were interested in using the Alternate Postage payment method. Such customers included companies who wished to include prepaid thank-you cards in the gift-baskets they produced and a franchise that wished to distribute prepaid coupons to franchisees that could be selectively mailed to loyal customers.

---

<sup>4</sup> Alternate Postage is different from the existing Business Reply Mail option, because the letter or card may be sent to any domestic address, not just a pre-printed address provided by the letter/card producer.

<sup>5</sup> Though the Alternate Postage Market Test was originally scheduled to expire on January 1, 2013, the Commission granted a one year extension in Order No. 1577 (Docket No. MT2011-1), issued on December 13, 2012.

<sup>6</sup> See Docket No. MC2011-1, First Data Collection Report for Alternate Postage Payment for Greeting Cards Market Test (March 2, 2012). Additionally, the most recent data related to the Alternate Postage Market Test is provided with this pleading as Attachment B.

As mentioned above, Alternate Postage is a premium offering, and will be priced above the prevailing rate for Single-Piece First-Class Mail letters and cards. This higher postage rate not only reflects the value of the service received, but also helps cover the additional accounting and administrative costs associated with the IMb payment method.<sup>7</sup> Despite these additional costs, however, the Postal Service expects Alternate Postage pieces to generate greater per-piece contribution than regular Single-Piece First-Class Mail items.

Unlike the ongoing Alternate Postage Market Test, which only had one price along with a single prefunding level, the Postal Service is proposing a tiered pricing approach here. As outlined in the proposed MCS language, the proposed pricing model accommodates price tiers that require up to 20%, 21-50% and over 50% of postage to be prefunded. In general, the prefunded postage payments will be retained by the Postal Service regardless of whether the Alternate Postage mailpieces are ever inducted into the postal system.<sup>8</sup> The Postal Service is also proposing to charge slightly lower per-piece postage rates when companies choose a higher prefunding level. As the Postal Service learned during the market test, businesses may require different prefunding levels based on their unique business needs. In particular, the more certain a company is that their Alternate Postage pieces will be mailed, the more likely they may be to choose a higher prefunding level; subject to approval by the Postal Service. The Postal Service is starting with small price differentials between the tiers, but may adjust these in future filings, after gaining experience with the customer response.

---

<sup>7</sup> The costs covered by the premium price include the cost of processing Alternate Postage items that, due to the fault of the mailer, end up weighing more than one ounce.

<sup>8</sup> Alternate Postage customers may only have their prefunded postage returned to them if they provide the Postal Service with proof that some, or all, of their Alternate Postage items have been removed from circulation and have been destroyed.

Given the pendency of the pricing cases in Docket Nos. R2013-10 and R2013-11, and the corresponding uncertainty surrounding what the prevailing Single-Piece First-Class Mail letter and card rates will be in 2014, the Postal Service proposed that the Commission set the Alternate Postage rates as follows:

Table 1: Proposed Pricing Structure<sup>9</sup>

Prefunded Postage	Single-Piece FCM Letter	Single-Piece FCM Postcard
Up to 20%	\$0.07 above approved rate	\$0.05 above approved rate
21-50%	\$0.06 above approved rate	\$0.04 above approved rate
51-100%	\$0.05 above approved rate	\$0.03 above approved rate

The MCS changes also include a Glossary change permitting a limited deferral of postage payment for scan-based payment. Some postage would be paid after the time of mailing, based on a scan obtained in the mailstream soon after entry.

## II. Price Cap Compliance

Because the proposed price adjustments do not change the prices for any existing First-Class Mail price categories, but simply add new options, the Postal Service believes that the proposed adjustments have no impact on the CPI-U price cap. Just as the Commission found no price cap impact when the Every Door Direct Mail Retail market test was replaced by a permanent MCS classification, there is no

<sup>9</sup> Given the uncertainty surrounding what the ultimate Alternate Postage Price will be, the Postal Service has left the prices in the MCS blank. While the Postal Service requests that the Commission set the Alternate Postage rates based on the structure proposed in Table 1, it does not intend for the PRC to set the Alternate Postage rates in this manner in subsequent years. Rather, in the future the Postal Service will propose rates in its Notice of Market-Dominant Price Adjustment. Such rates may, or may not, maintain the current relationship with the prevailing Single-Piece First-Class Mail rates for letters and cards.

price cap impact for this Alternate Postage filing. See Order No. 1460 at 11 (Sept. 7, 2012). Therefore, the Postal Service does not need to provide the calculations described in Rules 3010.14(b)(1) through (4).

### **III. Objectives and Factors and Workshare Discounts**

In compliance with Rules 3010.14(b)(5) through (8), the Postal Service discusses how the planned changes “help achieve” the objectives of section 3622(b) and “properly take into account” the factors of section 3622(c); and if they impact workshare discounts.

#### **A. Objectives and Factors**

The objectives of section 3622(b) are as follows:

- (b) Objectives.—Such system shall be designed to achieve the following objectives, each of which shall be applied in conjunction with the others:
- (1) To maximize incentives to reduce costs and increase efficiency.
  - (2) To create predictability and stability in rates.
  - (3) To maintain high quality service standards established under section 3691.
  - (4) To allow the Postal Service pricing flexibility.
  - (5) To assure adequate revenues, including retained earnings, to maintain financial stability.
  - (6) To reduce the administrative burden and increase the transparency of the ratemaking process.
  - (7) To enhance mail security and deter terrorism.
  - (8) To establish and maintain a just and reasonable schedule for rates and classifications, however the objective under this paragraph shall not be

construed to prohibit the Postal Service from making changes of unequal magnitude within, between, or among classes of mail.

- (9) To allocate the total institutional costs of the Postal Service appropriately between market-dominant and competitive products.

In addition to the objectives specified and discussed above, section 3622(c) enumerates fourteen factors, or considerations, that must be taken into account, which are as follows:

(c) Factors.—In establishing or revising such system, the Postal Regulatory

Commission shall take into account—

- (1) the value of the mail service actually provided each class or type of mail service to both the sender and the recipient, including but not limited to the collection, mode of transportation, and priority of delivery;
- (2) the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to each class or type of mail service through reliably identified causal relationships plus that portion of all other costs of the Postal Service reasonably assignable to such class or type;
- (3) the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters;
- (4) the available alternative means of sending and receiving letters and other mail matter at reasonable costs;
- (5) the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service;



- (6) simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services;
- (7) the importance of pricing flexibility to encourage increased mail volume and operational efficiency;
- (8) the relative value to the people of the kinds of mail matter entered into the postal system and the desirability and justification for special classifications and services of mail;
- (9) the importance of providing classifications with extremely high degrees of reliability and speed of delivery and of providing those that do not require high degrees of reliability and speed of delivery;
- (10) the desirability of special classifications for both postal users and the Postal Service in accordance with the policies of this title, including agreements between the Postal Service and postal users, when available on public and reasonable terms to similarly situated mailers, that—
  - (A) either—
    - (i) improve the net financial position of the Postal Service through reducing Postal Service costs or increasing the overall contribution to the institutional costs of the Postal Service; or
    - (ii) enhance the performance of mail preparation, processing, transportation, or other functions; and
  - (B) do not cause unreasonable harm to the marketplace.

- (11) the educational, cultural, scientific, and informational value to the recipient of mail matter;
- (12) the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services;
- (13) the value to the Postal Service and postal users of promoting intelligent mail and of secure, sender-identified mail; and
- (14) the policies of this title as well as such other factors as the Commission determines appropriate.

To a large extent, adding the Alternate Postage Payment price categories does not substantially alter the degree to which First-Class Mail prices already address the Objectives of section 3622(b), or they are addressed by the design of the system itself (Objectives 1, 2, 3, 6, 7, 8, and 9).

The new price categories are an example of the increased flexibility allowed the Postal Service under PAEA (Objective 4), and also are expected to enhance the financial position of the Postal Service (Objective 5).

Similarly, the new price categories do not substantially alter the degree to which First-Class Mail prices address many of the Factors of section 3622(c) (Factors 4, 5, 6, 8, 9, 10, 11, 12, and 14). The price categories increase the value of the mail to both senders and recipients, and therefore encourage increased mail volume (Factors 1 and 7). In addition, by providing a more convenient option for sending letters and cards, with additional postage exceeding any additional costs, the price category will help First-

Class Mail cover its attributable costs (Factor 2). Finally, the price categories' use of an IMb to collect postage helps promote the use of Intelligent Mail (Factor 13).

**B. Workshare Discounts**

None of the price changes impacts workshare discounts for First-Class Mail.

**C. Preferred Rates**

The price categories do not implicate any preferred rates.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Pricing & Product Support

---

John F. Rosato

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1135  
(202) 268-2986, Fax -6187  
[John.F.Rosato@usps.gov](mailto:John.F.Rosato@usps.gov)  
November 05, 2013

# ATTACHMENT A

## MAIL CLASSIFICATION CHANGES (Additions are underlined)

### PART A

#### MARKET DOMINANT PRODUCTS

# ATTACHMENT A

## **1001            MARKET DOMINANT PRODUCT DESCRIPTIONS**

\* \* \* \* \*

## **1100            First-Class Mail**

\* \* \* \* \*

## **1105            Single-Piece Letters/Postcards**

\* \* \* \* \*

### **1105.3        Price Categories**

The following price categories are available for the product specified in this section:

- Machinable Letters
- Nonmachinable Letters – Either have an aspect ratio that does not fall between 1 to 1.3 and 1 to 2.5 inclusive or do not meet other machinability requirements
- Qualified Business Reply Mail (QBRM) Letters
- Residual Machinable Letters
- Postcards
- Qualified Business Reply Mail (QBRM) Postcards
- Alternate Postage Letters and Postcards

### **1105.4        Optional Features**

The following additional postal services may be available in conjunction with the product specified in this section:

- Ancillary Services (1505)
  - Address Correction Service (1505.1)
  - Business Reply Mail (1505.3)
  - Certified Mail (1505.5)
  - Certificate of Mailing (1505.6)
  - Collect on Delivery (1505.7)
  - Insurance (1505.9)
  - Registered Mail (1505.12)
  - Return Receipt (1505.13)
  - Restricted Delivery (1505.15)
  - Special Handling (1505.18)

## ATTACHMENT A

- Stamped Envelopes (1505.19)
- Stamped Cards (1505.20)
- Premium Stamped Stationery (1505.21)
- Premium Stamped Cards (1505.22)
- Competitive Ancillary\_Services (2645)
  - Package Intercept Service (2645.2)
- Picture Permit Imprint Indicia (Alternate Postage Only)

\* \* \* \* \*

1105.5      Prices

\* \* \* \* \*

### Alternate Postage Letters and Postcards<sup>1</sup>

<u>Maximum Weight (ounces)</u>	<u>Upfront Postage Payment<sup>2</sup></u>	<u>Alternate Postage Letters (\$)</u>	<u>Alternate Postage Postcards (\$)</u>
<u>1 Ounce</u>	<u>Below 21%</u>	<u>X.XX</u>	<u>X.XX</u>
	<u>21 – 50%</u>	<u>X.XX</u>	<u>X.XX</u>
	<u>Over 50%</u>	<u>X.XX</u>	<u>X.XX</u>

### Notes

1. To qualify for Alternate Postage, customers must meet and comply with all eligibility requirements of the program.
2. To qualify for Alternate Postage, companies pay an agreed upon portion of the required postage at the time they print or distribute pre-approved mailpieces containing an Intelligent Mail barcode® (IMb). The remainder of the postage is subsequently collected when a pre-approved mailpiece is placed in the mailstream and scanned during processing.

\* \* \* \* \*

# ATTACHMENT A

## PART C

### GLOSSARY OF TERMS AND CONDITIONS

# ATTACHMENT A

## 3000 GLOSSARY OF TERMS AND CONDITIONS

\* \* \* \* \*

## 3017 P

\* \* \* \* \*

### *Postage and Fee Payment*

Postage and fees must be fully prepaid on all domestic mail at the time of mailing, except as authorized by law or this Schedule. Except as authorized by law or this Schedule, domestic mail deposited without prepayment of sufficient postage shall be delivered to the addressee subject to payment of deficient postage, returned to the sender, or otherwise disposed of as specified in the Domestic Mail Manual. Parcel Select Return Service mail may be retrieved by the permit holder prior to payment of postage, as specified in the Domestic Mail Manual. Matter authorized for mailing without prepayment of postage must bear markings identifying the class of mail service. Matter not so marked, or ineligible for the service marked, will be billed at the applicable price of postage for First-Class Mail or Priority Mail, depending on weight. Mail deposited without any postage affixed will be returned to the sender without any attempt at delivery. When postage is paid by a customer with an authorized Postal Service account, postage payment may be deferred until the mail is verified to be in the mailstream.



## ATTACHMENT B

### Alternate Postage Market-Test Total Volume and Revenue Data Collection Report (January 2012 – September 2013)

#### 1. Volumes and Revenues January 2012-September 2013

	Volume	Revenue
Greeting Cards Sold		
Greeting Cards Mailed		
Total	N/A	N/A

#### 2. Administrative Cost

Alternate Postage IT 2012 / 2013 Costs	
System and Application Support for Alternate Postage	\$205,117

#### 3. Program Administration

Monthly estimate of the amount of time spent on program office activity and a description of activities performed.

Department	Activity and Description	Work Hours per month
Transaction and Correspondence Program Office	Administrative functions include: invoicing, communications, validation and analysis of data, and coordination on IT systems	8 hrs per month for 21 months= \$13,539 (total from January 2012 through September 2013)

#### Methodology to develop data

Mailpiece counts are based on IMb scans performed by barcode sorters during normal mail processing. Additionally, the Postal Service receives a monthly report from market-test participants of all IMb barcodes from greeting cards that have been printed/distributed. This information is used to bill the market-test participant for the up-front component of postage payment (\$0.24 per piece). Once the Postal Service sees those barcodes in its mail processing operation, the greeting card company is billed the remaining \$0.24 per piece.

Note, that some of the greeting cards sold during this reporting period could be mailed after the reporting period. For this reason, and because the greeting cards sold, and those mailed, are the same cards at different points, totaling the two volumes is meaningless. The Total box therefore is marked N/A.

The Postal Service conducted random tests to evaluate the quality of its scan capture. During each test, 100 Alternate Postage Payment greeting cards were purchased, and their barcodes were recorded. The greeting cards then were mailed from and to different locations within the United States. A comparison of barcodes captured during processing and those recorded from the pieces mailed during the tests showed that the Postal Service captured scans for all of the greeting cards mailed.